

# KANSAS DEPARTMENT OF CREDIT UNIONS

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KDCU NEWSLETTER

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## **THE VALUE OF DUAL CHARTERING**

The first state credit union act, the *Massachusetts Credit Union Act*, became law in 1909. The Massachusetts law has served as a basis for subsequent state credit union laws and the Federal Credit Union Act. The choice between a federal and state charter for credit unions became an option with the passage of the Federal Credit Union Act in 1934. The ability of a credit union to be chartered by a state or the federal government is referred to as the 'dual chartering system'. Currently nation-wide more than 40% of credit unions are state chartered including the smallest to many of the largest. There is no pattern to which charter is dominant as in some states almost all credit unions are state chartered and in others, all are federal. Two states do not have state credit union statutes and thus do not charter credit unions. Most credit unions have either a state or federal charter because that is how they were originally organized.

The value of dual chartering is more than having the option to switch from one to the other particularly when most credit unions have never changed charter. Nevertheless, the fact that there is a choice is the basis for several advantages.

One of the most beneficial aspects of the dual chartering system is the innovativeness that results from having more than one regulator. By having several state regulators as well as the federal regulator, new and different ideas of regulation are constantly being advanced. Historically the powers of credit unions did not increase uniformly but more as a gradual adoption as ideas were tried and tested. Share draft or checking accounts and the formation of corporate credit unions are examples of innovations originated by Kansas credit union leaders. Because many of these ideas incubated from the states it is obvious local needs and governmental responsiveness played a key role.

Credit unions play a substantial role in what laws are enacted. Over time, this can be seen on a federal level and here in Kansas. Access and influence to the legislative process mean a great deal and depending on the issue, these factors are affected more or less by whether it is a state or federal government that is involved. Although constituents influence both federal and state

governments, clearly states provide greater returns to efforts advanced on behalf of local interests.

Although state and federal charters do not compete, the presence of one directly affects the responsiveness and provides a check and balance on the other. This is good for credit unions because it re-enforces the differences between charters and gives the choice of charters tangible meaning.

In conclusion, the dual chartering system provides clear advantages to credit unions and their ability to serve their members. The dual chartering system is worth preserving and defending. The decision on chartering choices by a new or existing credit union includes many obvious and not so obvious considerations all of which must be carefully weighted and measured.

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## **INTEREST RATE RISK**

The Federal Reserve has continued to raise interest rates. These increases in short-term rates have not been reflected in longer-term rates which have resulted in a flattening of the yield curve.

For credit unions, this emphasizes the importance of pricing loans and shares correctly. While every credit union's circumstances are different, the importance of timely adjustments in interest and dividend rates cannot be overly stressed. Several credit unions are now facing a lack of liquidity that appears to be the result of keeping rates on shares and loans too low for too long. It now appears these credit unions should have raised loan rates earlier, which would place them in a better position to meet increasing cost of funds. For credit unions that have longer-term fixed rate loans on their books, they will find it increasingly difficult to attract member funds because they cannot absorb the increased cost members will demand for use of their money.

In summary, timely pricing not only helps the credit union avoid liquidity problems and a weakened bottom line, it is also necessary to give all members the best and fairest circumstances whether they are borrowers or savers. Credit union board of directors should review interest rates no less often than at each monthly board meeting.

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### **CREDIT UNION COUNCIL APPOINTMENTS**

Governor Kathleen Sebelius has made several appointments to the Credit Union Council, the appointees and terms of appointment:

Name	Term Begins	Term Ends
Mark Kolarik, Pittsburg	3/16/2006	3/15/2009
Erich Schaefer, Garden City	1/31/2006	3/15/2007
Mark Bezdek, Topeka	1/31/2006	3/15/2007
Denise Bonner, Lawrence	1/31/2006	3/15/2008
Lee Williams, Wichita	1/31/2006	3/15/2008
William McCurley, Shawnee	1/31/2006	3/15/2008
Garth Strand, Buhler	3/16/2006	3/15/2009

The seven-member council is appointed by the Governor to advise the Administrator on issues and needs of credit unions.

The next meeting of the Credit Union Council will be March 9 at 10:00 a.m. in the KDCU conference room, 400 Kansas Avenue, Suite B, Topeka, Kansas. You are invited and encouraged to attend council meetings.

Immediately following the Council meeting, a reception will be held to honor new and departing Council members. Again, you are invited to attend.

### **ADMINISTRATOR'S COMMENTS**

On February 2, 2006, the senate confirmed my appointment by Governor Kathleen Sebelius as Administrator. My qualifications for the appointment include 20 years of service as an elected credit union board or supervisory committee member, Administrator, KDCU 1993 - 1997 and Director,

Missouri Division of Credit Unions 1999 – 2005.

I am very pleased to accept the appointment and be once again serving Kansas credit unions.

KDCU is currently undergoing an audit by the Division of Legislative Post Audit. The audit is a performance audit mandated by the 2005 Kansas legislature. More information about the audit is at <http://www.kslegislature.org/postaudit/> or by contacting this office.

Financial trends for the last half of 2005 show that Kansas chartered credit unions continue to operate in a safe and sound manner. Among the high lights from the Call Reports for the period from July 1 to December 31, 2005:

- Net worth increased from 12.53 to 12.59%
- Assets increased from \$20 million or 0.7%

A negative trend is that 51% of the 93 Kansas-chartered credit unions declined in total assets. This decline should concern credit union officials and KDCU.

John P. Smith, Administrator

### **KDCU STAFF**

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